

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 TRSE-00 STR-04 COME-00

CEA-01 CIAE-00 DODE-00 FRB-03 H-01 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 EPG-02 AID-05

SS-15 ITC-01 USIA-06 PRS-01 SP-02 OMB-01 AGR-05

FEA-01 OIC-02 AF-10 ARA-06 EA-07 NEA-10 /141 W

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FM USMISSION GENEVA

TO SECSTATE WASHDC PRIORITY 7143

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION USEC BRUSSELS

USMISSION OECD PARIS

AMEMBASSY HELSINKI

AMEMBASSY OTTAWA

AMEMBASSY STOCKHOLM

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EB/OT/TAFOR DUNFORD

TREASURY FOR OUELLETTE

PASS STR FOR WILSON

PASS COMMERCE FOR FRANCIS

E.O. 11652: N/A

TAGS: GATT, ETRD

SUBJ: GATT WP ON EXPORT INFLATION INSURANCE

REF: GENEVA 3374

1. THE 2.94 MILLION POUNDS MENTIONED IN PARA 2 OF REFTEL REPRESENTS THE VALUE OF THE BAND OF COVERAGE IN THE UK SCHEME, THAT IS, 3 YEARS TIMES THE 10 PERCENT (DIFFERENCE BETWEEN 17 PERCENT AND 7 PERCENT) TIMES 9.8 MILLION POUNDS OF ELIGIBLE VALUE. WITH RESPECT PARA 6 OF THE UK NOTE QUOTED IN THE REF-
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TEL, UK MISSION EXPLAINS THAT THE COSTS COMPENSATED BY THE SCHEME SHOULD ON AVERAGE BE NO GREATER THAN HALF OF THE APPARENT COST, SINCE THE COSTS ARE INCURRED IN INCREMENTS THROUGHOUT THE PERIOD OF COVER. THUS, THE CONCEPT IS SIMILAR TO THE DECLINING BALANCE CONCEPT OF INTEREST PAYMENT, AS FOR EXAMPLE IN U.S. REVOLVING CHARGE ACCOUNTS.

2. UK MISSION AGAIN EMPHASIZED UK INTENTION THAT THE SCHEME BE SELF-FINANCING. WE SAID SUCH A COMMITMENT WOULD BE WELCOME IN THE GATT WP BUT IT WOULD REQUIRE MORE THAN MERE ASSERTION OF INTENTIONS. WE SAID UK SHOULD STATE FOR QUOTING IN THE FINAL WP REPORT THAT EITHER PREMIUMS CHARGED OR ELIGIBLE VALUES WOULD BE PROMPTLY CHANGED TO ATTUNE FOR ANY SUDDEN INCREASE IN UK COST INFLATION. MISSION DOUBTS THEY WILL BE ABLE TO GO THIS FAR.

3. WE NOTED THAT EVEN IN THE EVENT A SCHEME MIGHT BE SELF-FINANCING CURRENTLY, MERE EXISTENCE OF SCHEME SHOULD PUT UK BIDDERS IN ADVANTAGEOUS POSITION OF GUARANTEEING BUYERS THAT HMG WOULD SUBSIDIZE A PART OF ANY MAJOR COST INCREASES BEYOND THOSE ANTICIPATED AT THE TIME A CONTRACT WAS MADE.

4. FRENCH MISSION HAS ALSO GIVEN US RESPONSE TO THE HYPOTHETICAL STATISTICAL EXAMPLE AS CONTAINED STATE 52741. FRANCE MAINTAINS THAT NO THEORETICAL EXAMPLE COULD CHARACTERIZE THE OPERATIONS OF THEIR SCHEME AND THAT U.S. EXAMPLE WAS INACCURATE. WITHOUT SUPPLYING AN ALTERNATE EXAMPLE, FRENCH MISSION HAS OFFERED FOLLOWING FURTHER EXPLANATION THEIR SCHEME. THE AMOUNT OF A CONTRACT ELIGIBLE FOR PAYMENT DEPENDS UPON A "REVISED ABASE PRICE", WHICH IS OBTAINED BY ADJUSTING THE ORIGINAL BASE PRICE BY ONE OF THE EXPERTS SUPERVISING THE CONTRACT. THE FORMULA CONSISTS OF (A) A FIXED PART EQUAL TO 0.25 PERCENT ON AVERAGE (COMPOSED OF THE BENEFICIARY MARGIN LIMITED OFFICIAL USE

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PLUS GENERAL EXPENSES NOT AFFECTED BY PRICE RISES PLUS PROVISION FOR AN EXEMPTION), AND (B) A VARIABLE PART COMPOSED OF AN INDEX OF VARIOUS PRODUCTS AND SERVICES, A "SALARIES" INDEX PARTIALLY REPLACED SINCE 15 MARCH 1977 BY THE COST-OF-LIVING INDEX BASED ON 295 ARTICLES, AND ONE OR SEVERAL RAW MATERIALS INDICES ACCORDING TO THE TYPE OF PRODUCT COVERED.

5. THE EXPERT IN CHARGE OF THE CASE TAKES ACCOUNT OF THE PERIODS OF EFFECT OF THE VARIOUS COST FACTORS, THE PERIOD OF MANUFACTURE, AND THE PERIOD DURING WHICH THE VARIOUS INDICES HAVE THEIR IMPACT.

6. THAT PORTION OF THE INCREASE WHICH MUST BE BORNE BY THE EXPORTER (I.E., THE THRESHOLD) IS CURRENTLY FIXED AT 6.5 PERCENT. THE PREMIUM CHARGED IS INFLUENCED BY TWO FACTORS: (A) A BASIC 1 PERCENT PER YEAR OVER THE PERIOD GUARANTEED, AND (B) AN ADDITIONAL ELEMENT WHICH TAKES INTO ACCOUNT THE DIRECT EFFECTS OF THE FLOATING

FRANC ON THE COMPETITIVENESS OF FRENCH BIDS.

7. WITH RESPECT TO THE WP IN GENERAL, WE HAVE TOLD CANADIANS AND SWEDES WE ARE CONCERNED THAT WP MIGHT EVENTUALLY REACH SOME CONCLUSION SAYING THAT SELF-FINANCING SCHEMES ARE ACCEPTABLE. WE HAVE URGED THAT THEY POINT OUT TO THEIR CAPITALS THAT SUCH A CONCLUSION WOULD LIKELY BE TAKEN AS AN OPEN INVITATION BY OTHER COUNTRIES TO BEGIN THE FURTHER PROLIFERATION OF THE EXPORT INFLATION INSURANCE DEVICE. IN THAT EVENT, THE GATT WP WOULD HAVE WOUND UP BY ACTUALLY INTENSIFYING THE PROLIFERATION OF THESE MECHANISMS DESPITE THE AVOWED PURPOSE OF KEY DELS TO STOP THEIR SPREAD. WE DO NOT SEE ANY DANGER THAT WP IS PREPARED TO REACH THE CONCLUSIONS STAGE AT THE UPCOMING SESSION, BUT WE DO BELIEVE IT DISTINCTLY POSSIBLE THAT SEVERAL DELS COULD MAKE INTERVENTIONS WHICH LAY THE BASE FOR SUCH A CON-
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CLUSION LATER. FOR EXAMPLE, BOTH NORWAY AND SWEDEN HAVE CONFLICTING MOTIVATIONS. BOTH HAVE EXPRESSED ALARM OVER PROLIFERATION OF EXPORT INFLATION INSURANCE SCHEMES, YET BOTH TELL US THEY INTEND TO GO OUT OF THEIR WAY TO INSURE THAT THEY DO NOT SUPPORT CONCLU-
SIONS HARMFUL TO THEIR NORDIC NEIGHBOR, FINLAND.SORENSEN

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Control Number: n/a
Copy: SINGLE
Sent Date: 06-May-1977 12:00:00 am
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Disposition Approved on Date:
Disposition Case Number: n/a
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